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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000287

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [NI](#)  
SUBJECT: NIGERIAN OIL PRODUCTION: HOW BAD IS BAD?

Classified By: Consul General Donna M. Blair for reasons 1.4 (B) and (D)  
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¶1. (C/NF) Summary: Press reports and rumors abound that due to recent militant attacks in Delta State, Nigeria's oil production has fallen to 1.3 million barrels per day (bpd) and maybe lower, down from recent production levels that hovered between 1.8 million and 2 million bpd. After reviewing information from contacts, the Nigerian National Petroleum Corporation, press reports, and company public statements, we believe Nigeria's total production of petroleum liquids to be closer to 1.65 million bpd. While the situation may not be as dire as is being portrayed, individual companies, notably Chevron and Shell have been gravely impacted by recent attacks and the GON is likely feeling the fiscal pressure from reduced oil output. However serious the current security challenges are, pending petroleum reform legislation could do more long term damage to Nigeria's oil and gas sector. End Summary.

Rumors of a Severe Downturn  
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¶2. (SBU) The number and seriousness of attacks on oil installations, particularly in Delta State, spiked in May and June after the JTF's May 15 assault on militant leader Tompolo. Local Nigerian press report that Nigeria's total daily production has fallen to 1.3 million barrels per day, although articles lack a detailed breakdown of production by company. Picked up by international press agencies, that number has gained traction and is now being quoted by many local observers of the Nigerian oil industry.

¶3. (C/NF) In an attempt to verify this number, the Mission reviewed information from the Nigerian National Petroleum Corporation (NNPC), press reports, industry contacts, and oil company public statements. We do not have access to a single, reliable source of daily production figures. Like many OPEC countries, the GON is not eager to publicize its production levels. Many oil companies are hesitant to discuss production levels even in confidence. Chevron in recent weeks has become circumspect when discussing production levels. Shell and the other European companies have never given production figures. In fact as a policy, local Shell officials do not release Nigerian production levels. ExxonMobil executives in Nigeria have been the notable exception, freely sharing production figures from

their joint venture and deep offshore facilities.

¶4. (SBU) Production is not a clearly defined term. We define it as all oil and condensates being produced in Nigeria for domestic use or export. Note that under the OPEC allocation system, condensates do not count against a country's quota and government oil officials will often use only crude oil production numbers when speaking to the press. That difference in definition may account for some of the discrepancy between the numbers circulating in the press and what we calculated.

#### Comparison of Current and Past Production

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¶5. (C/NF) What follows is a comparison of March 2009 production levels from a public report available on NNPC's website and our estimate of current production as of 7 July 2009. Production is broken down by company and contract type. Joint venture (JV) is an older contract structure used in inland, swamp, and near offshore fields. Production sharing contracts (PSCs) are typically, but not exclusively, used in deep offshore oil fields. The GON usually receives more money in taxes, royalty oil and equity oil from a JV contract than it does from a PSC contract. The numbers below do not distinguish liquids destined for export and liquids destined for Nigeria's four refineries. In March 2009, Nigeria was sending 130,000 bpd to its refineries. The pipeline to the Warri refinery was blown up in a late May 2009 attack. We do not believe Nigeria's refineries are currently receiving significant amounts of crude oil or

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condensates. A senior Chevron contact told us in May that company was directed by NNPC to redirect the 100,000 bpd it had been sending to the Warri refinery to the Escravos export terminal for export.

¶6. (SBU) Production Figures for March 2009 (Source: NNPC)

Company	Joint Venture	PSC
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Exxon	470,000	140,000
Chevron	310,000	160,000
Shell	300,000	140,000
TOTAL (Elf)	190,000	10,000
Agip	110,000	30,000
Addax	N/A	100,000
Others	110,000	N/A
Total:	1,490,000	580,000
% of total:	72%	28%

Overall production: 2,070,000.

¶7. (C/NF) Current Production Figures (Source: various)

Company	Joint Venture	PSC
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Exxon	540,000	180,000
Chevron	80,000	200,000
Shell	0	160,000
TOTAL (Elf)	190,000	125,000
Agip	53,000	30,000
Addax	N/A	100,000
Others	0	N/A
Total:	863,000	795,000
% of total:	52%	48%

Overall production: 1,658,000.

¶8. (C/NF) We had to make certain assumptions in determining current production levels:  
--Shell's JV operation is completely shut in. That may be a pessimistic assumption.  
--Chevron has lost all but 80,000 bpd of onshore production. A senior Chevron executive told us that after a 5 July attack the company was still producing 80,000 bpd from its Western Operating Area in Delta and Bayelsa states, but did not want

to make that information public for fear of encouraging another attack. The press reported that the 5 July attack took out all of Chevron's JV production.

--"Others" are small marginal field producers and single field companies producing under service and sole risk contracts. The small producers like Dubri Oil and Pan Ocean use part of the networks of Chevron and Shell to get their crude oil from their fields to export terminals. We therefore assumed production from these companies is shut in.

That too may be a pessimistic assumption.

--TOTAL's current PSC production has increased substantially since the Akpo condensate field came onstream in mid-March 2009. TOTAL estimates the field will produce 175,000 bpd of condensate when fully onstream. A contact with Petrobras, part owner of the field, told us in February that Akpo would start production at 125,000 bpd in March increasing to 175,000 bpd by June 2009. Since we have no information Akpo has reached full capacity, for this calculation we assumed it was still producing at its initial 125,000 bpd.

--Addax's and TOTAL's production has not been seriously impacted by recent events. We have received no reports of outages, although some production loss is possible.

--Agip's has lost 57,000 bpd of production after attacks on pipelines leading to the Brass export terminal in Bayelsa. Press reports indicate the company declared force majeure on loadings from the Brass export terminal on 19 June.

--We assume Chevron's PSC production has increased from its February level. We have reliable information for Shell's and Exxon's PSCs, but not for Chevron's. However its facility operating under a PSC, the deep offshore Agbami FPSO, has a capacity of 250,00 bpd. We assume production there increased in line with increases seen at Shell and Exxon.

#### Key Takeaways from the Comparison

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¶9. (C/NF) Pre-May 15, Shell was only producing 300,000 bpd from its JV out of an estimated capacity of 1,000,000 bpd. In other words, although damaged in recent attacks, Shell was in bad shape before the May 15 JTF assault on Tompolo. Chevron's production has been seriously damaged in recent attacks. It has been unable to make repairs to the key Abiteye pipeline and the JTF appears unable to stop militant attacks on Chevron facilities in Delta State. ExxonMobil has so far escaped relatively unharmed. That could change if militant activity spreads east.

¶10. (C/NF) The GON appears to have compensated somewhat for falling JV production by increasing output from the PSCs. PSC production may have been previously limited to keep Nigeria within a respectable distance of its OPEC allocation.

Even though the fall in total oil production is not as dramatic as portrayed in the press, this doesn't mean the GON isn't feeling the pain. The GON has been unable, or too distracted, to eliminate the costly gasoline subsidy. Falling crude output only exacerbates that problem. The production split between JVs and PSC is changing, which impacts GON revenues. The GON's take from PSCs is less than its take from the JVs. With PSCs making up a larger percentage of the oil Nigeria produces, GON tax receipts and oil revenues are taking a hit.

¶11. (C/NF) Comment: Nigerian production has probably taken a significant hit, though not quite as bad as portrayed in the press. We are moderately confident that our numbers are correct, but we have not been in the business of counting barrels of oil and for good reason. Security crises come and go in the Niger Delta and production rises and falls accordingly. It's a problem we can do little to resolve. In our view, what is equally if not more serious, is looming petroleum reform legislation that, if passed in its current form, could derail the industry for years. The fiscal terms alone border on confiscatory. It will drive some western oil companies out of Nigeria, delay new exploration and

production ventures, and throttle natural gas development which would in turn threaten plans to increase electricity generation, Nigeria's general economic well-being, and maybe even the stability of the country. Helping the GON craft a sustainable reform bill is a challenge we can and should do something about. If not us, then other actors may be willing to help the GON. Gazprom for instance. End Comment.  
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